PitchBook®

Global PE Deal Multiples Report

2017 IV

Contents

G L O B A L
PE DEAL MULTIPLES
REPORT

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Introduction

Key takeaways

- 46% of survey respondents cited the discovery of adverse information through diligence as the cause of cancelling or renegotiating a deal, up from 32% last quarter.

- On average, it now takes longer for PE deals to close. The median time from signing of LOI to final close was 16 weeks for transactions completed in 4Q 2017—higher than the 12-week span recorded for most of the last few years. We attribute the lengthening deal process to a heightened focus on diligence in a high-price environment.

- 48% of respondents reported that they believe deal multiples are not within a range that allows for typical PE fund returns.

Each quarter, we survey PE investors to get an inside look at deal terms, multiples and investor sentiment. We've updated this edition with deals completed in 3Q or 4Q 2017. In certain cases, survey responses are combined with data from PitchBook to augment sample sizes.

We hope this report is useful in your practice. As always, feel free to send any questions or comments to reports@pitchbook.com.

DYLAN E. COX

Analyst II

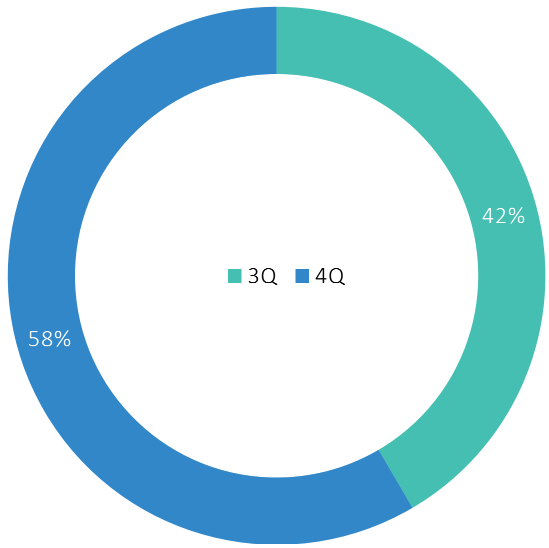
Survey Population & Market Sentiment Summary

- 43% of survey respondents reported completing deals in the B2B space, higher than the proportion recorded in all PE deals. IT transactions are underrepresented, accounting for just 5% of deals, compared to 20% in the broader market.

- 19% of respondents described their firm's succession plan as "non-existent, but one is needed." Another 8% described it their firm's succession plan as inadequate. By and large, succession planning in PE has improved in recent years, but much work remains to be done.

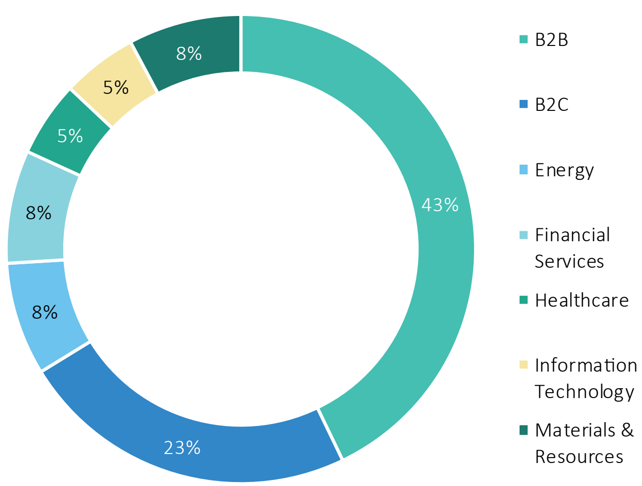
- 48% of respondents reported that they believe deal multiples are not within a range that allows for typical PE fund returns. Median EV/EBITDA multiples for US buyout transactions clocked in at 12.1x YTD through 3Q 2017.

Responses (#) by timeframe



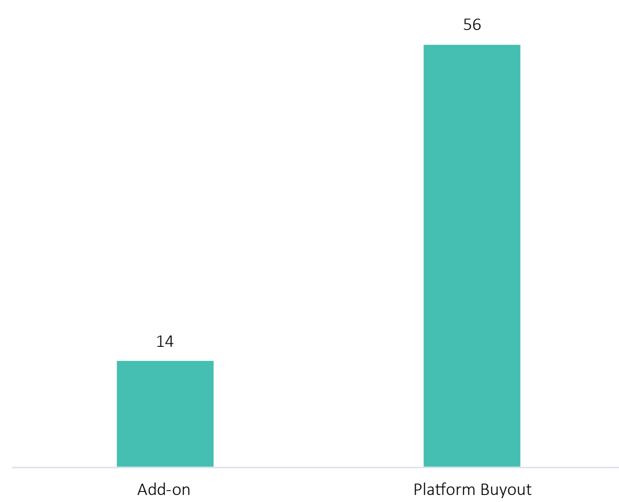
Source: PitchBook. *As of 12/15/2017
Note: The underlying data is from the most recent edition of the Deal Multiples survey.

Responses (#) indicating sector of target company



Source: PitchBook. Note: The underlying data is from the most recent edition of the Deal Multiples survey.

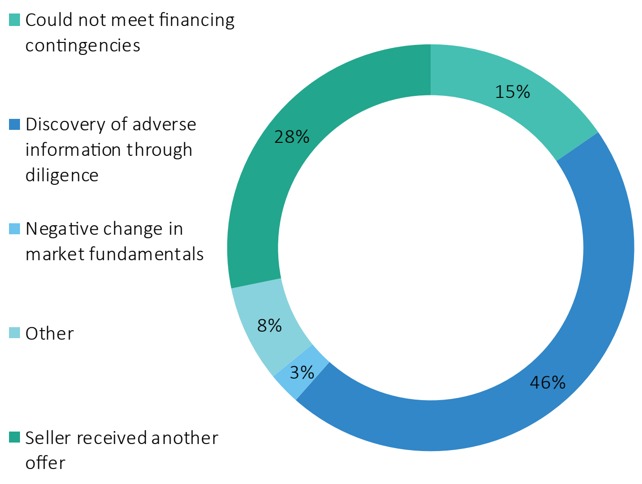
Responses (#) indicating type of transaction



Source: PitchBook. Note: The underlying data is from the most recent edition of the Deal Multiples survey.

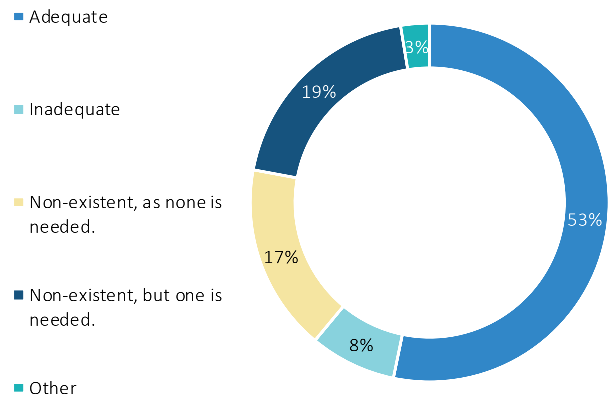
PitchBook

Reasons for cancelling or renegotiating deals



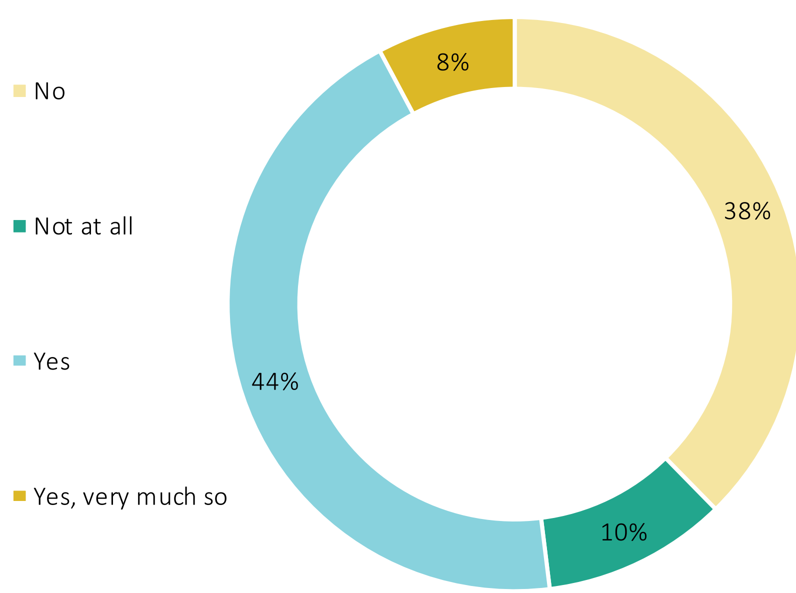
Source: PitchBook. Note: The underlying data is from the most recent edition of the Deal Multiples survey.

How would you describe your firm's succession plan?



Source: PitchBook. Note: The underlying data is from the most recent edition of the Deal Multiples survey.

In your opinion, are current deal multiples within a range that allows for typical PE fund returns?



Source: PitchBook. Note: The underlying data is from the most recent edition of the Deal Multiples survey.

The PitchBook Platform

The data in this report comes from the PitchBook Platform—our data software for VC, PE and M&A. Contact sales@pitchbook.com to request a free trial.

Investment Multiples

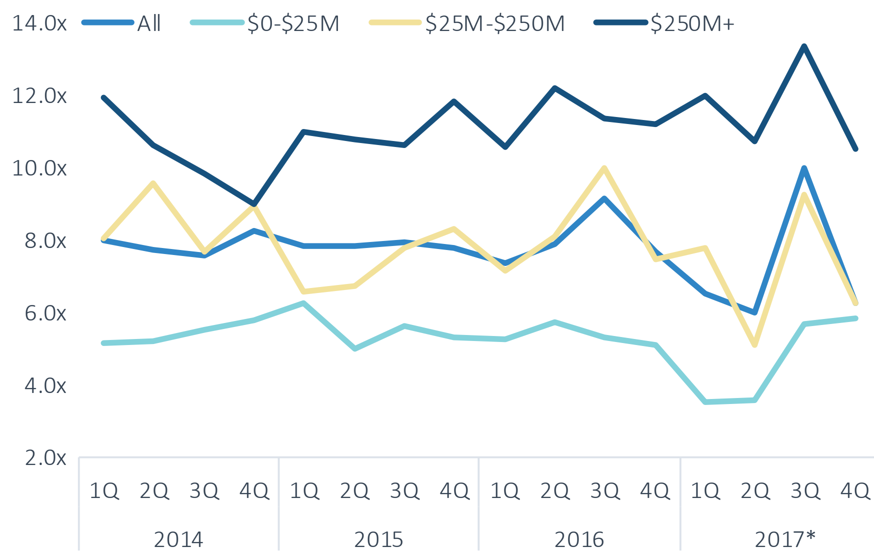
Quarter-over-quarter vagaries mainly impacted by macro factors

The median EV/EBITDA for transactions recorded in 4Q dipped to 6.3x, a sharp decrease from the 10.0x recorded in the prior quarter. Given that the survey population can change over time, it's possible that the jump in 3Q simply represents a change in the representation of deal types, sectors and sizes in the survey. However, it may also be the case that PE firms rushed to complete deals before any potential change to US tax policy, particularly the deductibility of interest, which could have driven multiples higher. At the time of this writing, the bill is still under consideration, but could have a pronounced impact on pricing next year.

The survey data shows a clear difference between entrance multiples of buyout transactions at different enterprise values. The median valuation/EBITDA multiple for transactions above $250 million was 10.5x in 4Q 2017, well above the 6.3x recorded for transaction sizes between $25 million and $100 million, or the 5.9x for transactions smaller than $25 million. The discount for smaller companies is, of course, expected, but the recent convergence of multiples in the two smallest size buckets is a good indicator of heightened competition in the lower middle market.

Lower middle market sees heightened competition

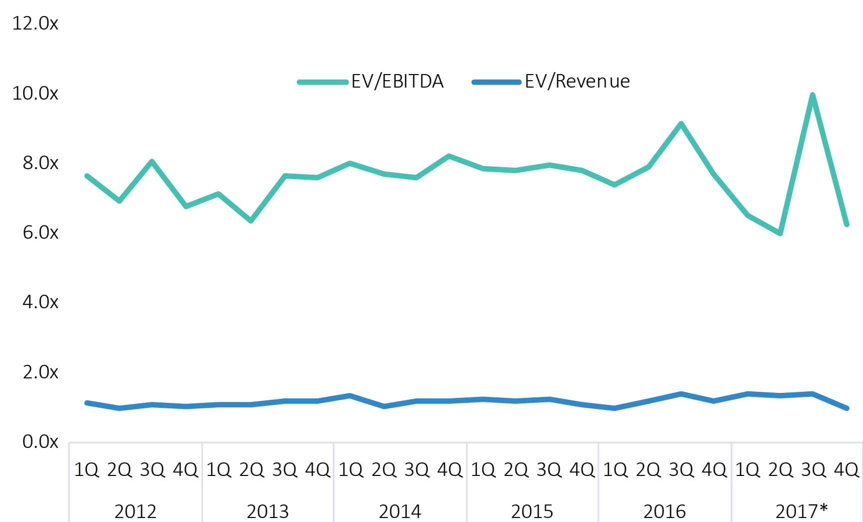
Median EV/EBITDA multiples by transaction size



Source: PitchBook. *As of 12/15/2017
Note: This data was produced by blending survey and PitchBook data.

After a quarterly aberration, realignment

Median EV/EBITDA & EV/revenue multiples



Source: PitchBook. *As of 12/15/2017
Note: This data was produced by blending survey and PitchBook data.

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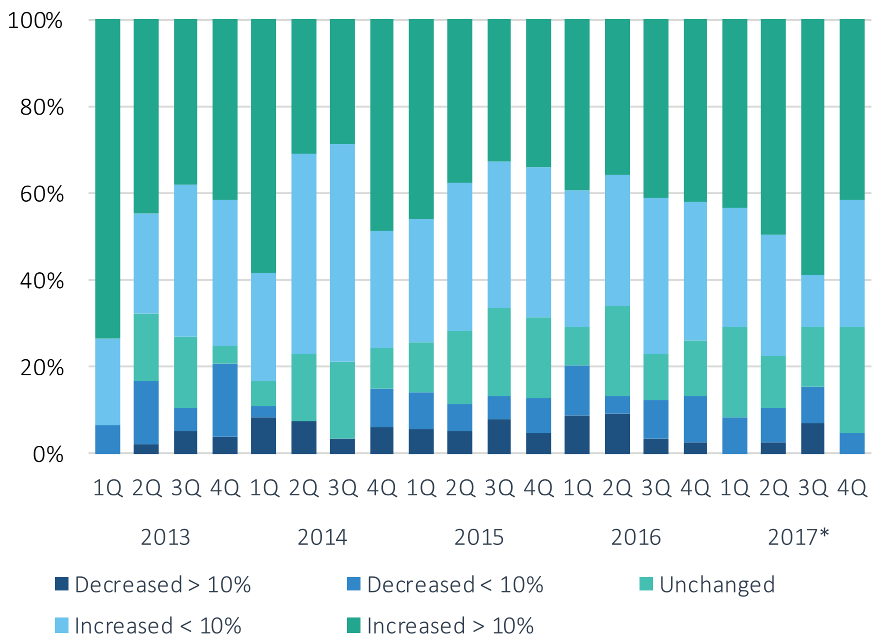
Revenue Change

By and large, PE buyers still shifting toward faster-growing companies

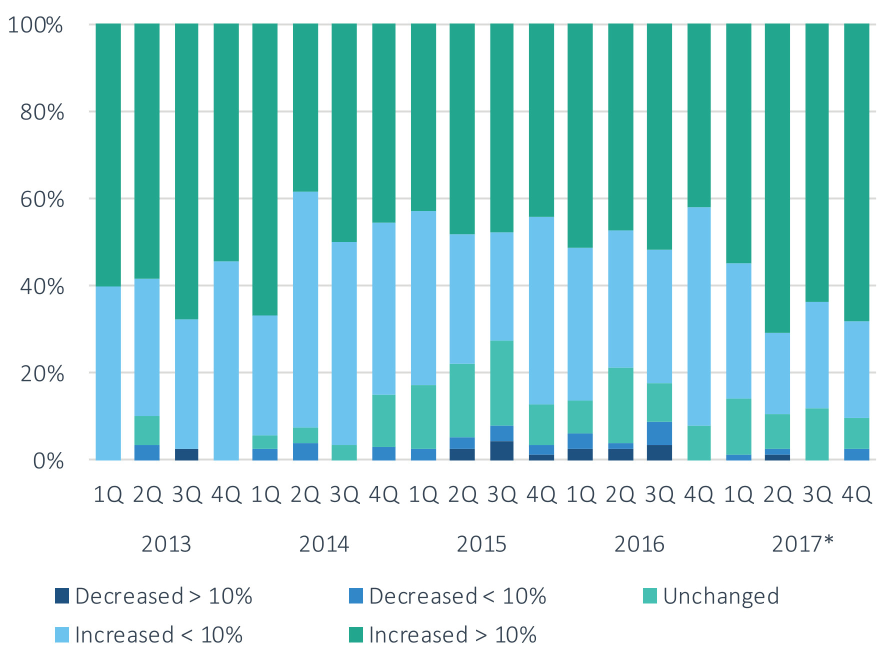
Revenue change 12 months prior to deal



Source: PitchBook. *As of 12/15/2017
Note: Some of these quarterly figures may have n < 30

Hope springs anew on the part of PE buyers

Anticipated revenue change 12 months following deal



Source: PitchBook. *As of 12/15/2017
Note: Some of these quarterly figures may have n < 30

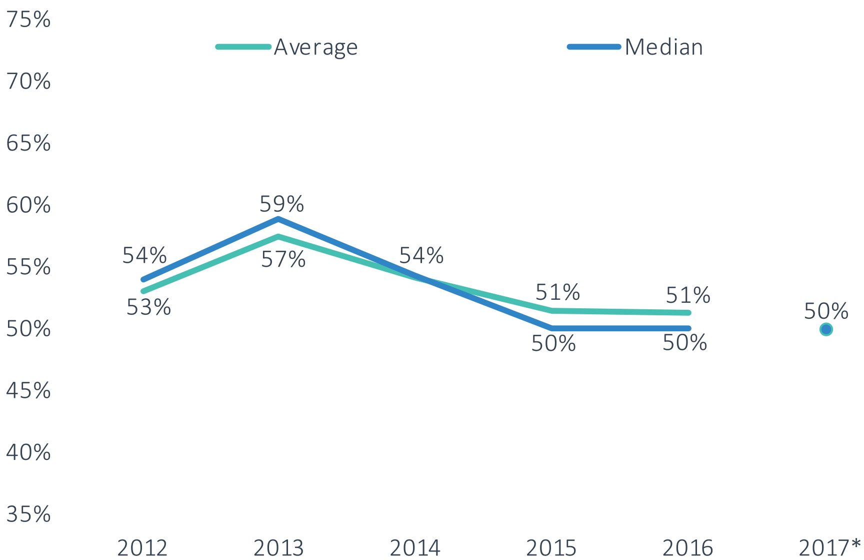
Positive sentiment waxing strong

In recent years, PE firms have been purchasing faster-growing companies than they once did—a reflection of both the improving economy and PE's transition away from legacy industries. The proportion of survey respondents who reported purchasing companies with at least 10% TTM revenue growth rose unabated from 36% in 2Q 2016 to 59% in 3Q 2017. However, that figure fell to just 41% for transactions completed in 4Q 2017 (through December 15, 2017).

Reporting TTM revenue changes is rather straightforward, but predicting FTM revenue growth at the portfolio company can be far more difficult. PE firms remain optimistic; for transactions completed in 4Q 2017, 68% of respondents expect revenue to grow by more than 10% in the 12 months following an acquisition. 100 day plans are now ubiquitous within the PE industry, but even the best operators may struggle to grow revenue quickly and consistently.

Debt & Equity Levels

Debt usage still below 2013 levels
Median & mean debt levels

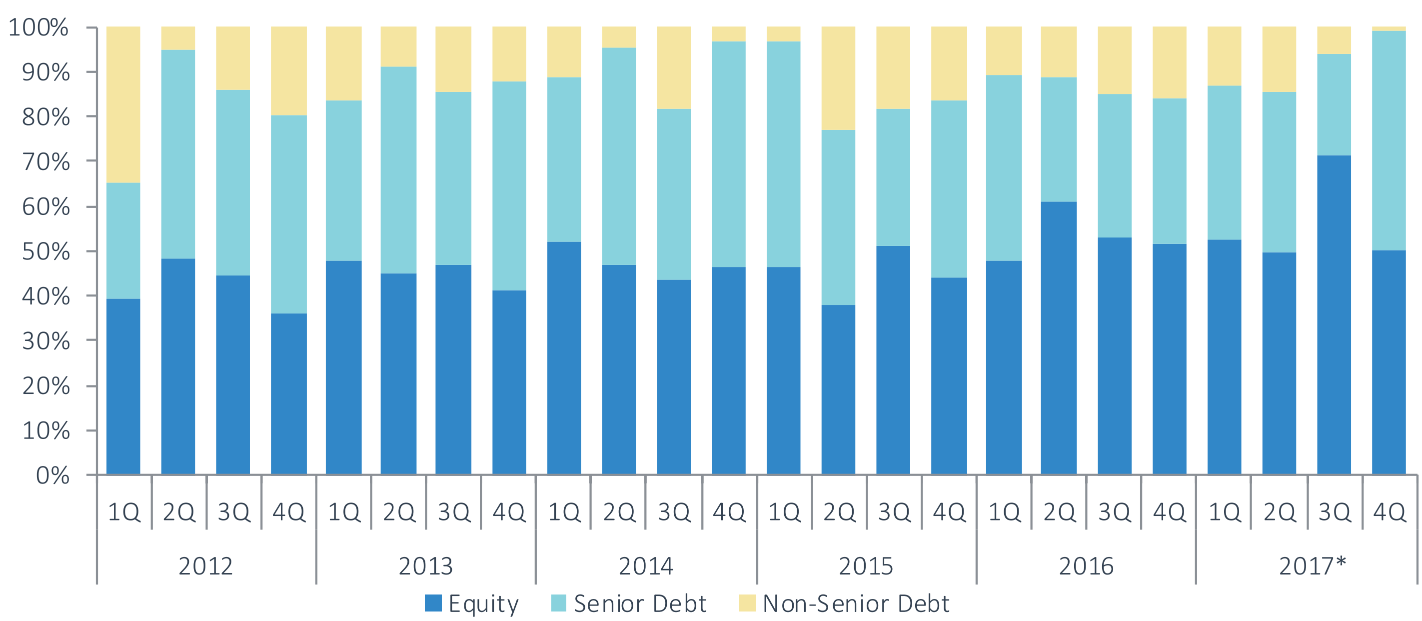


Source: PitchBook. *As of 12/15/2017
Note: The underlying debt data is produced by blending both survey and PitchBook data, whereas the below chart is derived from survey data only.

High equity contributions may suggest PE's propensity for caution even in pricey climate

Average equity contributions for our survey population remain the highest level we've ever tracked—56% of enterprise value YTD. It's important to note that this differs from broader industry datasets, where debt contributions have risen this year. Even so, the use of non-senior debt has fallen to an average of just 10% of enterprise value—the lowest since 2014, which is coincidentally the last time the high-yield credit spreads were as low as they are currently.

Equity contributions hit 56% of EV YTD
Average debt-to-equity breakdown



Source: PitchBook
*As of 12/15/2017

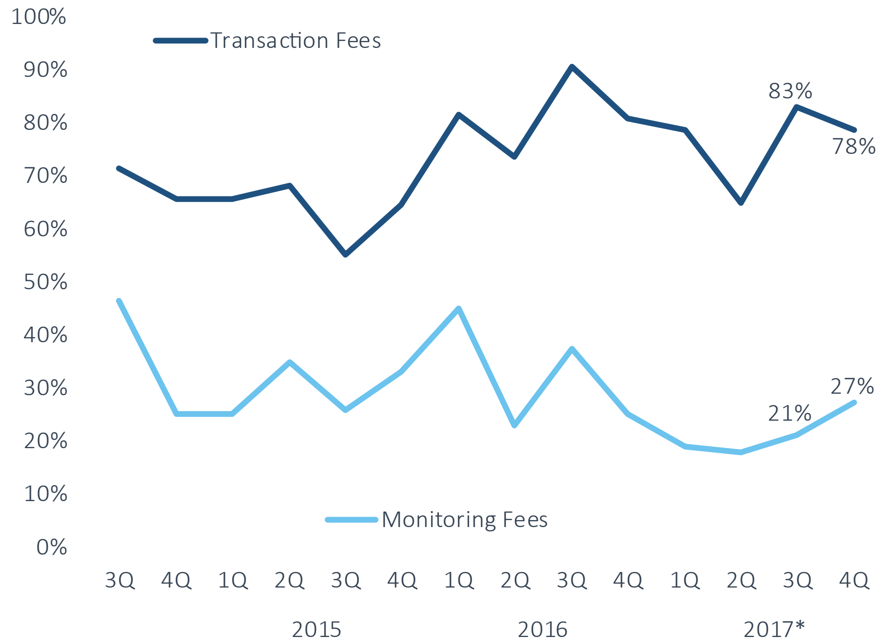
Fees

After falling for five consecutive quarters, the use of monitoring fees has rebounded recently. 21% and 27% of survey respondents reported using monitoring fees in 3Q and 4Q 2017, respectively—up from a low of 18% in 2Q 2017. The practice has received much public criticism in recent years and remains a controversial means of compensation—even when disclosed—given that management fees are already charged at the fund level.

78% of respondents reported charging transactions fees to the company being acquired in 4Q 2017—down from 83% in 3Q, but well within the historical norm. The median transaction fee remains at 2.0% of EV YTD in 2017, down from 3.0% in 2016.

Fee load has increased this year

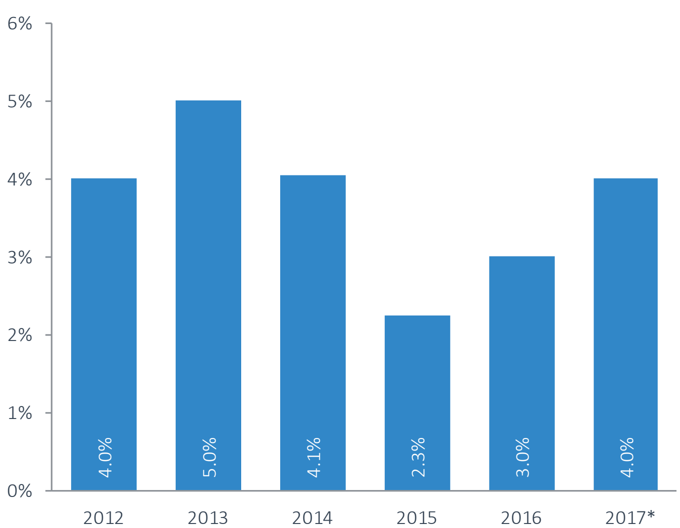
Proportion of transactions with fees



Source: PitchBook
*As of 12/15/2017

Monitoring fees rebound amid constant criticism

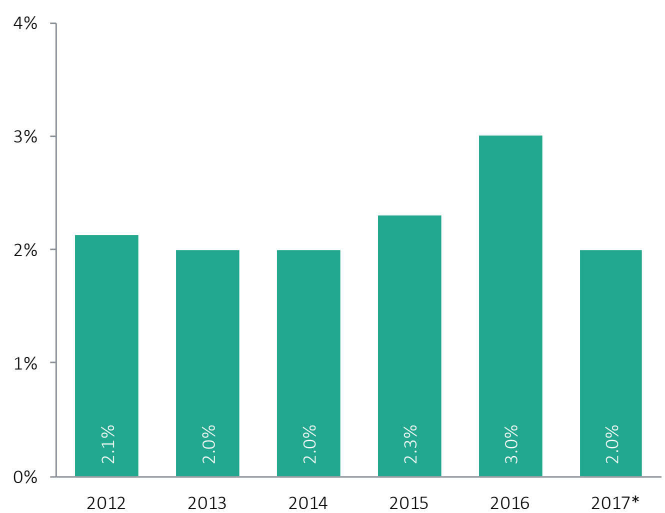
Median monitoring fee as % of EBITDA



Source: PitchBook
*As of 12/15/2017

Transaction fee load remains within historical norms

Median transaction fee as % of deal value



Source: PitchBook
*As of 12/15/2017

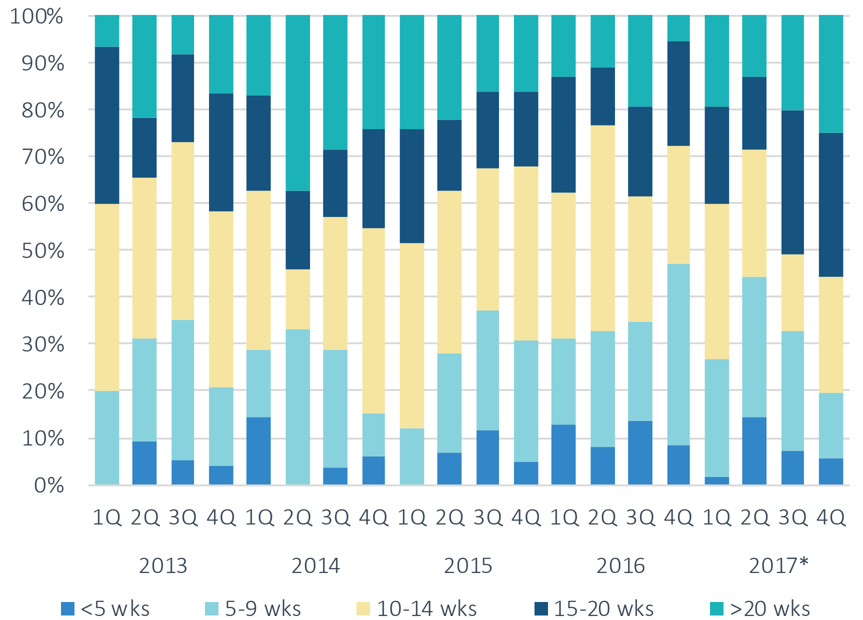
Closing Times & Earnouts

Higher prices and the focus on diligence contribute to lengthening closing times

On average, it now takes longer for PE deals to close. The median time from signing of LOI to final close was 16 weeks for transactions completed in 4Q 2017—slightly above the 15 weeks for transactions completed in 3Q and much higher than the 12-week span recorded for most of the last few years. We attribute the lengthening deal process to a heightened focus on diligence in a high-price environment.

Over the past three quarters, more deals have taken longer to close

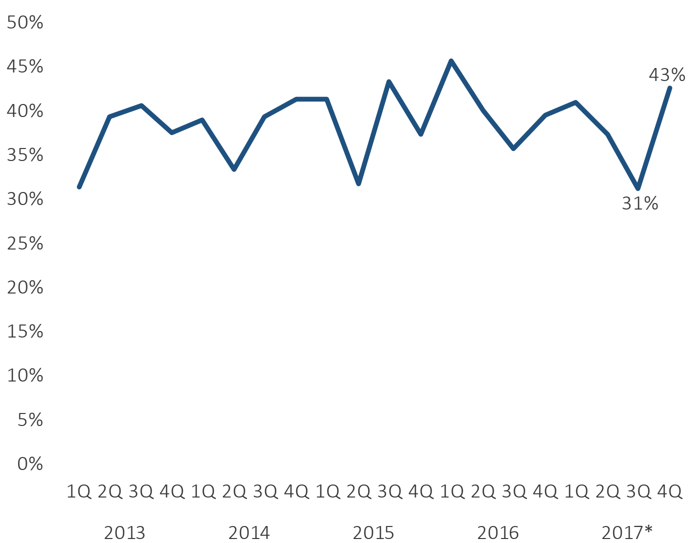
Transactions (#) by weeks to close



Source: PitchBook
*As of 12/15/2017

Earnouts remain on the historically higher side

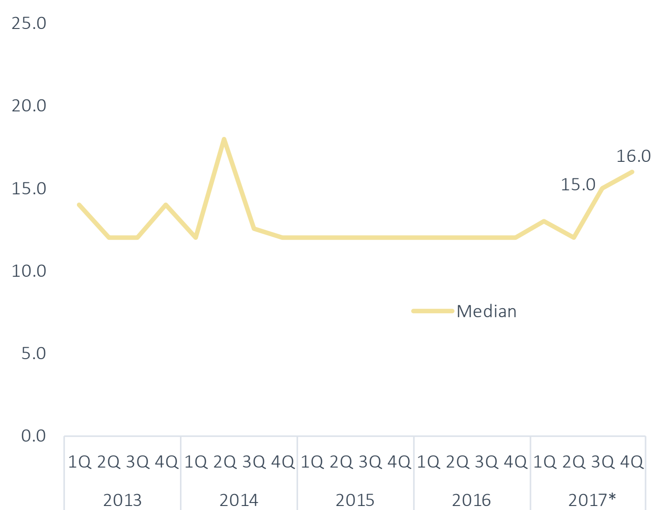
Deals with earnout provisions/seller financing (#)



Source: PitchBook
*As of 12/15/2017

Median closing times exhibit an uptick

Weeks to close



Source: PitchBook
*As of 12/15/2017

Methodology

Survey Process

Responses collected across multiple iterations of our Global PE Deal Multiples Survey have been aggregated and augmented with PitchBook Platform data to generate the underlying datasets cited in this report. The survey is typically sent out to a worldwide audience via the PitchBook newsletter or emailed to a customized audience of relevant industry professionals across the globe.

Notes Regarding Survey Phrasing

In the survey, transaction fees were defined as legal, advisory, accounting or due diligence fees specifically related to that transaction and paid to a third party.

Monitoring fees were defined as fees charged to the portfolio company by the general partner for its advisory and management services.

Notes Regarding Transactional Data

Not every survey participant provides answers to every question, yet to improve overall sample size, we include all data points recorded via the survey process. In combination with the fact that not every transaction pulled from the PitchBook Platform has every relevant financial statistic, the datasets underlying different charts of transaction multiples are not static. There will be overlap among datasets yet each chart should be interpreted more as a snapshot of the industry rather than a given population of transactions.

Deals

PitchBook only tracks completed transactions, not rumored or announced deals. The eligible PitchBook transaction types utilized in this report are all buyout types, as opposed to overall PE activity covered in other reports, which also include growth investments and investor buyouts by management.

Additional note: *Due to the opaque nature of private markets, we are constantly backfilling our database to include the most up-to-date information. Consequently, some data points may change from time to time, particularly for more recent quarters.*